

THE HONORABLE ROBERT S. LASNIK

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

In re F5 NETWORKS, INC. DERIVATIVE
LITIGATION

Master File No. C-06-0794-RSL
STIPULATION OF SETTLEMENT

1 This Stipulation of Settlement, dated September 24, 2010 (the "Stipulation"), is made and
 2 entered into by and among the following Settling Parties (as defined below in § IV(A)(18) hereof),
 3 each by and through their respective counsel: (i) Federal Lead Plaintiff Locals 302 and 612 of the
 4 International Union of Operating Engineers-Employers Construction Industry Retirement Trust
 5 ("Federal Lead Plaintiff") (on behalf of itself and derivatively on behalf of F5 Networks, Inc. ("F5"
 6 or the "Company")); (ii) the Individual Defendants (as defined below in § IV(A)(10)); and (iii)
 7 nominal party F5. The Stipulation is intended by the Settling Parties to fully, finally and forever
 8 resolve, discharge and settle the Released Claims (as defined below in § IV(A)(16)), upon and
 9 subject to the terms and conditions hereof.

10 I. INTRODUCTION AND PROCEDURAL OVERVIEW

11 On June 8, 2006, plaintiff Glenn Hutton filed a complaint in the United States District Court
 12 for the Western District of Washington at Seattle (the "Court"): *Hutton v. McAdam, et al.*, Case No.
 13 2:06-cv-00794-RSL. Thereafter, three other cases were consolidated with the *Hutton* case: *Locals*
 14 *302 and 612 of the International Union of Operating Engineers-Employers Construction Industry*
 15 *Retirement Trust v. McAdam, et al.*, Case No. 2:06-cv-01057-RSL; *Easton v. McAdam, et al.*, Case
 16 No. 2:06-cv-01145-RSL; and *Barone v. McAdam et al.*, Case No. C07-1200-RSL. The four above-
 17 referenced derivative actions were consolidated as *In re F5 Networks, Inc. Derivative Litigation*,
 18 Master File No. 2:06-00794-RSL (the "Federal Action"). On October 2, 2006, the Court appointed
 19 Locals 302 and 612 of the International Union of Operating Engineers-Employers Construction
 20 Industry Retirement Trust as Federal Lead Plaintiff, and Coughlin Stoia Geller Rudman & Robbins
 21 LLP (now known as Robbins Geller Rudman & Dowd LLP) as lead counsel in the Federal Action
 22 ("Federal Lead Counsel").

23 Three additional derivative actions were filed against F5 and certain of the Individual
 24 Defendants in the Superior Court of Washington for King County: *Adams v. Amdahl et al.*, Case No.
 25 06-2-17195-1 SEA; *Wright v. Amdahl et al.*, Case No. 06-2-19159-SEA; and *Sommer v. McAdam*
 26 *et al.*, Case No. 06-2-26248-4 SEA. On April 3, 2007, the above-referenced actions were

consolidated as *In re F5 Networks, Inc. State Court Derivative Litigation*, Master Case No. 06-2-17195-1 SEA (the "State Action"). On April 3, 2007, the King County Court also appointed Marilyn Adams as State Lead Plaintiff, and Schiffrin, Baroway, Topaz & Kessler LLP (now known as Baroway Topaz Kessler Meltzer & Check LLP) as lead counsel, in the State Action. At the same time, the State Action was stayed pending resolution of the Federal Action and remains stayed.

The Federal Action and the State Action are referred to collectively in this Stipulation as the "Actions."

The Federal Action alleges claims on behalf of F5 against certain current and former officers and directors of F5, arising from or relating to the granting of stock options at F5, beginning as early as 1999. On October 25, 2006, F5 announced that a special committee had concluded after an internal investigation that the recorded grant dates for certain stock option grants made between fiscal years 1999 and 2004 should not be relied upon as the measurement date for accounting purposes. F5 further disclosed that the Company would likely need to restate its historical financial statements for fiscal years 1999-2005 "to record additional non-cash, stock-based compensation expense" related to past stock option grants, and that "the [C]ompany's financial statements and earnings releases and similar financial communications relating to fiscal periods commencing on or after October 1, 1998, which is the first day of the [C]ompany's fiscal year 1999, and through the date of this release should no longer be relied upon." On November 8, 2006, F5 announced, among other things, that it would restate its financial statements for fiscal years 1999 through 2005 and the first two quarters of fiscal 2006 to reflect an additional non-cash, stock-based compensation expense of approximately \$22.9 million.

On November 26, 2006, Federal Lead Plaintiff filed its Consolidated Verified Shareholder Derivative Complaint (the "Consolidated Complaint"). The Consolidated Complaint asserted claims relating to the alleged backdating of stock option grant awards, and the issuance of allegedly false and misleading statements and other SEC reports allegedly designed to conceal such backdating from shareholders against certain of the Individual Defendants (as defined below in § IV(A)(10)).

1 On February 28, 2007, F5 moved to dismiss the Consolidated Complaint on the theory that a
 2 pre-suit demand on the F5 Board of Directors would not have been futile. More specifically, F5
 3 argued that the Consolidated Complaint contained no allegations that F5's directors lacked
 4 independence or that they were sufficiently "interested" in the events at issue to disqualify them
 5 from exercising their business judgment.

6 Federal Lead Plaintiff opposed F5's motion, arguing that the Consolidated Complaint
 7 sufficiently alleged the reasons demand on the F5 Board would have been futile. On August 6,
 8 2007, the Court granted the motion to dismiss with leave to amend. On September 14, 2007, Federal
 9 Lead Plaintiff filed its Amended Consolidated Verified Shareholder Derivative Complaint (the
 10 "Complaint"). The Complaint alleged violations of the federal securities laws, the Sarbanes-Oxley
 11 Act of 2002, and state common law. F5 filed a motion to dismiss the Complaint on November 16,
 12 2007, again arguing that Federal Lead Plaintiff had not adequately alleged that demand on the F5
 13 Board would have been futile, and Federal Lead Plaintiff filed an opposition on January 18, 2008.
 14 F5 filed its reply on February 19, 2008. On July 3, 2008, the Court certified two questions
 15 concerning Washington state law to the Washington Supreme Court. Following full briefing and
 16 oral argument by the parties, on May 21, 2009, the Washington Supreme Court issued its opinion on
 17 the certified questions. In October 2009, the Court requested supplemental briefing to address the
 18 impact of the Washington Supreme Court's opinion on F5's pending motion to dismiss. Following
 19 submission of such briefing, the parties agreed to attempt a mediation of the Action, and sought and
 20 were granted a suspension of the ruling on F5's motion to dismiss until after the mediation.

21 In June 2010, the parties to the Federal Action attended a mediation before the Honorable
 22 Layn Phillips (Ret.). Since the mediation, the parties have continued settlement negotiations to
 23 resolve the Action, and thereafter reached an agreement-in-principle to settle the Actions.

24 As a result of the Federal Action and the settlement reflected in this Stipulation (the
 25 "Settlement"), F5 has instituted, or will institute, significant corporate governance reforms designed
 26 to enhance its internal controls and operations. Federal Lead Plaintiff, Federal Lead Counsel, and F5

1 believe that a settlement at this juncture on the terms and on the conditions set forth in this
 2 Stipulation is fair, reasonable, adequate, and in the best interests of F5.

3 The Board of Directors of F5, in an exercise of its independent business judgment, approved
 4 the Settlement and each of its terms as fair, just and adequate, and in the best interest of F5 and its
 5 shareholders.

6 **II. CLAIMS OF THE FEDERAL PLAINTIFFS AND BENEFITS OF SETTLEMENT**

7 Federal Lead Plaintiff believes that the claims asserted in the Federal Action have merit.
 8 However, Federal Lead Counsel recognizes and acknowledges the expense and length of continued
 9 proceedings necessary to prosecute the Actions through trial and through appeals. Federal Lead
 10 Counsel has also taken into account the uncertain outcome and the risk of any litigation, especially in
 11 complex actions such as the Federal Action, as well as the difficulties and delays inherent in such
 12 litigation. Federal Lead Counsel is also mindful of the inherent problems of proof and possible
 13 defenses to the claims asserted in the Federal Action. Federal Lead Counsel believes that the
 14 Settlement confers substantial benefits upon F5 and its shareholders. Based on their evaluation,
 15 Federal Lead Plaintiff and nominal party F5 have determined that the Settlement is in the best
 16 interests of F5 and its shareholders.

17 **III. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY**

18 Defendants (as defined below in § IV(A)(4)) have denied and continue to deny each and all
 19 of the claims and contentions alleged by Federal Lead Plaintiff in the Federal Action. Defendants
 20 expressly have denied and continue to deny all charges of wrongdoing or liability against them
 21 arising out of any of the conduct, statements, acts, or omissions alleged, or that could have been
 22 alleged, in the Federal Action. Defendants also have denied and continue to deny, *inter alia*, the
 23 allegations that Federal Plaintiffs, F5, or its shareholders have suffered damage, or that Federal
 24 Plaintiffs, F5, or its shareholders were harmed by the conduct alleged in the Federal Action.
 25 Defendants have further asserted that at all relevant times, they acted in good faith and in a manner
 26 they reasonably believed to be in the best interests of F5 and its shareholders.

1 Nonetheless, Defendants have concluded that further conduct of the Federal Action would be
 2 protracted and expensive, and that it is desirable that the Federal Action be fully and finally settled in
 3 the manner and upon the terms and conditions set forth in this Stipulation. Defendants agree to the
 4 Settlement without admitting any wrongdoing or liability.

5 IV. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT

6 NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and among
 7 Federal Plaintiff (as defined below in § IV(A)(8)) (for themselves and derivatively on behalf of F5),
 8 F5, and the Individual Defendants by and through their respective counsel or attorneys of record:

9 A. Definitions

10 As used in this Stipulation the following terms have the meanings specified below:

11 1. "Actions" means collectively the consolidated action pending in the United States
 12 District Court for the Western District of Washington entitled *In re F5 Networks, Inc. Derivative*
 13 *Litigation*, Case No. 6-06-0794-RSL and the consolidated action pending in the Superior Court of
 14 Washington for King County entitled *In re F5 Networks, Inc. State Court Derivative Litigation*,
 15 Master Case No. 06-2-17195-1 SEA.

16 2. "Complaint" means the Amended Consolidated Verified Shareholders Derivative
 17 Complaint filed in the Federal Action.

18 3. "Court" means the United States District Court for the Western District of
 19 Washington.

20 4. "Defendants" means nominal party F5 and the Individual Defendants.

21 5. "Effective Date" means the first date by which all of the events and conditions
 22 specified in § IV(F)(1) of this Stipulation have been met and have occurred.

23 6. "F5" means F5 Networks, Inc. and its predecessors, successors, subsidiaries,
 24 affiliates, divisions, and assigns.

1 7. “Federal Lead Counsel” means Robbins Geller Rudman & Dowd LLP and its
2 successors.

3 8. “Federal Plaintiffs” means Locals 302 and 612 of the International Union of
4 Operating Engineers-Employers Construction Industry Retirement Trust, Glenn Hutton, David
5 Sommer, and Lawrence Barone, and (as applicable) their respective parents, subsidiaries, affiliates,
6 directors, officers, agents, employees, representatives, insurers, spouses, marital communities, heirs,
7 successors, subrogees, transferees, and assignees.

9 9. “Final” means the time when the Judgment (as defined below in § IV(A)(11)) and the
10 order dismissing with prejudice the State Action have not been reversed, vacated, or modified in any
11 way and are no longer subject to appellate review, either because of disposition on appeal and
12 conclusion of the appellate process or because of passage, without action, of time for seeking
13 appellate review. More specifically, it is that situation when: (1) either no appeal has been filed and
14 the time has passed for any notice of appeal to be timely filed in the Actions; or (2) an appeal has
15 been filed and the courts of appeal has/have either affirmed the Judgment/dismissal or dismissed that
16 appeal and the time for any reconsideration or further appellate review has passed; or (3) a higher
17 court has granted further appellate review and that court has either affirmed the underlying
18 Judgment/dismissal or affirmed the court of appeals’ decision affirming the Judgment/dismissal or
19 dismissing the appeal.

20 10. “Individual Defendants” means John McAdam, Andy Reinland, John Rodriguez,
21 Joann M. Reiter, Edward J. Eames, Jeff Pancottine, Tom Hull, Brett L. Helsel, Steven Goldman,
22 Jeffrey S. Hussey, Carlton Amdahl, Steven B. Coburn, Alan J. Higginson, Karl D. Guelich, Keith D.
23 Grinstein, Rich Malone, A. Gary Ames, and Kenny J. Frerichs.

24 11. “Judgment” means the Judgment to be rendered by the Court, substantially in the
25 form attached hereto as Exhibit B.
26

1 12. "Person" means an individual, corporation, limited liability corporation, professional
2 corporation, partnership, limited partnership, limited liability partnership, association, joint stock
3 company, estate, legal representative, trust, unincorporated association, government or any political
4 subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors,
5 successors, representatives, or assignees.

6 13. "Plaintiffs" means Locals 302 and 612 of the International Union of Operating
7 Engineers-Employers Construction Industry Retirement Trust, Glenn Hutton, David Sommer,
8 Lawrence Barone, Allen Easton, Marilyn Adams, and John C. Wright, and (as applicable) their
9 respective parents, subsidiaries, affiliates, directors, officers, agents, employees, representatives,
10 insurers, spouses, marital communities, heirs, successors, subrogees, transferees, and assignees.

11 14. "Plaintiffs' Counsel" means any counsel that has appeared of record or rendered legal
12 services to any of Plaintiffs in connection with the Actions.

13 15. "Related Persons" means (1) each Individual Defendant's respective spouse, marital
14 community, heirs, successors, executors, estates, or administrators; any entity in which an Individual
15 Defendant and/or member(s) of his or her family has or had a controlling interest; any members of
16 an Individual Defendant's immediate family; or any trust of which an Individual Defendant is or was
17 the settlor or which is or was for the benefit of any Individual Defendant and/or member(s) of his or
18 her family; (2) each of the Individual Defendant's present and former attorneys, legal
19 representatives, insurers, and assigns in connection with the Actions; and (3) all past and present
20 directors, officers, partners, controlling shareholders, joint venturers, related or affiliated entities,
21 advisors, employees, affiliates, predecessors, successors, parents, subsidiaries, divisions, assigns,
22 insurers, and attorneys for F5, its counsel, or any entity in which F5 has a controlling interest.

23 16. "Released Claims" shall collectively mean all claims (including "Unknown Claims,"
24 as defined below in § IV(A)(21)), debts, demands, rights, liabilities and causes of action of every
25 nature and description whatsoever, known or unknown, whether or not concealed or hidden, asserted
26 or that could have been asserted by any derivative plaintiff on behalf of F5, or by F5, against each

1 and every Released Person (including, without limitation, claims for damages, interest, attorneys'
 2 fees, expert or consulting fees and any other costs, expenses or liability, negligence, negligent
 3 supervision, gross negligence, intentional conduct, indemnification, breach of duty of care and/or
 4 breach of duty of loyalty or good faith, fraud, misrepresentation, unjust enrichment, constructive
 5 trust, breach of fiduciary duty, negligent misrepresentation, unfair competition, insider trading,
 6 professional negligence, mismanagement, corporate waste, breach of contract, or violations of any
 7 state or federal statutes, rules or regulations) that were alleged in the Actions, or that arise from or
 8 relate to the matters or occurrences that were alleged in the Actions, or that could have been asserted
 9 with respect to the matters or occurrences that were alleged in the Actions, for conduct through and
 10 including the date on which this Stipulation is fully executed by all signatories, including any claims
 11 related to the public disclosures relating to stock option grants and purchases or the transactions
 12 referenced therein, however described.

13 17. "Released Persons" means each and all of the Individual Defendants and their Related
 14 Persons.

15 18. "Settling Parties" means, collectively, each of the Individual Defendants, Federal
 16 Plaintiffs (on behalf of themselves and derivatively on behalf of F5), and F5 and its shareholders.

17 19. "State Court" means the Superior Court of the State of Washington, King County.

18 20. "State Action" means the consolidated action pending in the Superior Court of
 19 Washington for King County entitled *In re F5 Networks, Inc. State Court Derivative Litigation*,
 20 Master Case No. 06-2-17195-1 SEA.

21 21. "Unknown Claims" means any of the Released Claims that any of Plaintiffs, F5, or
 22 F5 shareholders do not know or suspect to exist in his, her or its favor at the time of the release of the
 23 Released Persons, including claims that, if known by him, her or it, might have affected his, her or
 24 its settlement with and release of the Released Persons, or might have affected his, her or its decision
 25 not to object to this Settlement. With respect to any and all Released Claims, the Settling Parties
 26 stipulate and agree that, upon the Effective Date, the Plaintiffs, Individual Defendants, and F5 shall

1 expressly waive and each of the F5 shareholders shall be deemed to have, and by operation of the
 2 Judgment shall have, expressly waived, the provisions, rights and benefits of California Civil Code
 3 § 1542, which provides:

4 ***A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH***
 5 ***THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER***
 6 ***FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN***
 7 ***BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER***
 8 ***SETTLEMENT WITH THE DEBTOR.***

9 Upon the Effective Date, Plaintiffs, Individual Defendants, and F5 shall expressly waive, and each of
 10 the F5 shareholders shall be deemed to have, and by operation of the Judgment shall have, expressly
 11 waived any and all provisions, rights and benefits conferred by any law of any jurisdiction or any
 12 state or territory of the United States, or principle of common law that is similar, comparable or
 13 equivalent to California Civil Code § 1542. Plaintiffs, Individual Defendants, F5 and F5
 14 shareholders may hereafter discover facts in addition to or different from those that he, she or it now
 15 knows or believes to be true with respect to the subject matter of the Released Claims, but, upon the
 16 Effective Date, each of Plaintiffs, Individual Defendants, and F5 shall expressly settle and release,
 17 and each F5 shareholder shall be deemed to have, and by operation of the Judgment shall have, fully,
 18 finally, and forever settled and released, any and all Released Claims, known or unknown, suspected
 19 or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist,
 20 or heretofore have existed upon any theory of law or equity now existing or coming into existence in
 21 the future, including, but not limited to, conduct that is negligent, intentional, with or without malice,
 22 or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such
 23 different or additional facts. The Settling Parties acknowledge, and the F5 shareholders shall be
 24 deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was
 25 separately bargained for and is a key element of the settlement of which this release is a part.

26 **B. Corporate Governance Measures**

In connection with and conditioned upon the settlement of the Actions, F5 has agreed to
 implement and/or maintain the Corporate Governance Measures set forth below. These Corporate

Governance Measures constitute the consideration for the Settlement, and F5 acknowledges that the pendency and prosecution of the Federal Action were a substantial cause in the Company's decision to implement and/or maintain the Corporate Governance Measures. The Corporate Governance Measures shall be maintained for a minimum of five years from the Effective Date; provided, however, that in the event that any Corporate Governance Measure listed below conflicts with any rule, law or regulation (including regulations of any stock exchange on which F5 securities are listed), F5 shall not be required to implement or maintain such measures.

A determination that a Corporate Governance Measure conflicts with any rule, law or regulation shall be made by the Board's Nominating and Corporate Governance Committee or a majority of the independent members of the Board. Any such determination shall be (a) documented in Board or Committee meeting minutes (as applicable), (b) shall be disclosed to Robbins Geller Rudman & Dowd LLP, (c) documented in a notice filed with the Court, and (d) disclosed on the Investor Relations "home" page of the Company's website as soon as practicable after such determination has been made and, if feasible, prior to the effectuation of any change to the Corporate Governance Measure(s).

1. Stock Option Grants and Procedures

a. Stock Option Plans

The Board shall adopt an equity-based compensation award policy that applies to all current and future equity incentive plans, whether or not subject to shareholder approval, providing for the following:

i. The policy shall clearly define the exercise price, the grant date, and the fair market value of stock (e.g., the closing price of the stock on a specified date, or the average closing price over a specified period). In no event will the exercise price or value of an award be determined by reference to the fair market value of F5 stock on a date other than the grant date of the award. The fair market value of F5 stock on a grant date will be defined as the closing price for a share of F5 common stock on such date as reported on the NASDAQ.

1 ii. The following clause will be included in the policy: "The date of grant
2 of an equity award must, for all purposes, be no earlier than the date on which the Board or
3 Compensation Committee makes the determination granting such award. Notice of the
4 determination will be given to each employee or consultant to whom an equity award is so granted
5 reasonably promptly following the grant date or by such date as may be required by applicable
6 accounting standards. In no event will notice be given more than twenty (20) days after the date of
7 such grant."

8 iii. The policy shall require compliance with legal, professional, and
9 ethical requirements for proper disclosure and proper accounting.

10 iv. The policy shall require appropriate documentation for proper
11 disclosure and accounting.

12 v. The policy shall identify who is responsible and appropriate steps for
13 ensuring compliance with applicable laws and regulations by option grantees (e.g., timely and
14 accurate filing of SEC Forms 3, 4, and 5), and shall require effective monitoring mechanisms to
15 ensure that such laws, and the plans, are followed.

16 vi. The Company shall maintain all records relating to all equity awards
17 until at least seven (7) years after the expiration of the pertinent equity awards.

18 **b. Granting of Stock Option Awards**

19 i. Authority to grant stock option awards to directors and executive
20 officers, and authority to approve parameters for stock option awards for other employees, shall be
21 limited to the full Board or a properly constituted Compensation Committee, consisting of solely
22 independent directors.

23 ii. Grants to directors and any employee subject to § 16 of the Securities
24 Exchange Act of 1934, or Covered Employees within the meaning of § 162(m) of the Internal
25 Revenue Code, shall either be approved or be ratified by the full Board or the Compensation
26 Committee, consisting solely of independent directors, as defined herein.

1 iii. The Board or the Compensation Committee, as applicable, shall
 2 approve equity awards to newly hired employees and service providers (other than non-employee
 3 directors) and to newly promoted individuals, to be granted on a quarterly basis effective February 1,
 4 May 1, August 1, and November 1 (or, if such day is not a business day, on the following business
 5 day) (the "New Hire Grant Date"). All such approvals shall occur on or prior to the New Hire Grant
 6 Date. The Board or the Compensation Committee, as applicable, at its discretion may also change in
 7 advance the annual grant dates and quarterly grant date for a given quarter, and shall disclose such
 8 change prior to the new annual grant date.

9 iv. For equity awards that require approval at times other than regularly
 10 scheduled Compensation Committee meetings (for example, in connection with the hiring of a senior
 11 executive or the closing of an acquisition or other strategic transaction), the Compensation
 12 Committee may approve equity grants by calling a special Compensation Committee meeting. The
 13 grant date for each such equity grant shall be no earlier than the date that the Compensation
 14 Committee holds the special meeting and concurrently approves the grant. When a special
 15 Compensation Committee meeting is not feasible, the Compensation Committee may approve equity
 16 grants by having the entire Compensation Committee approve such grants by written consent. The
 17 grant date for all such grants approved by written consent shall be no earlier than the date on which
 18 the written consent is complete and approved in writing (or by electronic transmission) by all
 19 Compensation Committee members. All written consents shall carry the date of when each
 20 signatory signed (or electronically approved) the consent.

21 v. The exercise price for any equity grants approved at times other than
 22 regularly scheduled Compensation Committee meetings shall be determined using the formula
 23 prescribed in the equity-based Compensation award policy described in § I.A. herein. The
 24 Compensation Committee will promptly inform the Board about any equity grants to executive
 25 officers approved by the Compensation Committee.
 26

2. Board Composition and Practices

a. Board Structure

i. The Board's Committees shall have standing authorizations, at their discretion, to obtain legal or other advisors of their choice, who will report directly to the Board or the Committee.

ii. A nominee for director shall be elected by a vote of a majority of the votes cast. A majority of votes cast means that the number of shares cast "for" a nominee's election exceeds the number of votes cast "against" that nominee's election.

b. Separate Chairman/CEO

i. In the event that, and for as long as, the positions of Chairman of the Board and Chief Executive Officer are held by the same person, the independent members of the Board shall annually elect an independent director to act in a lead capacity to coordinate the other independent directors, as described further below (the "Lead Independent Director"). The Lead Independent Director shall coordinate and moderate executive sessions of the Board's independent directors, and shall act as principal liaison between the independent directors and the Chief Executive Officer.

ii. In addition to the duties applicable to all Board members (which will not be limited or diminished by the Lead Independent Director's role), the Lead Independent Director shall be responsible for the following functions:

- Coordinate and approve the timing and agendas for Board meetings. (The Committee Chairpersons will coordinate and approve the timing and agendas for their respective Committee meetings.)
- Recommend the nature, quantity and timing of information provided to the independent directors by the Company's management, including information specifically requested by the Lead Independent Director.

- 1 • Recommend retention of such counselor consultants who report directly to the Board,
2 or to the Lead Independent Director.
- 3 • In consultation with the applicable Committee Chairpersons, recommend
4 implementation of corporate governance policies and procedures, including assisting
5 the Chairpersons of the various Board Committees as requested by those
6 Chairpersons.
- 7 • Receive reports from the Nominating and Corporate Governance Committee
8 regarding compliance with and implementation of the Company's corporate
9 governance policies.
- 10 • Receive reports from the Chairperson of the Nominating and Corporate Governance
11 Committee regarding recommended revisions to F5's corporate governance policies.
- 12 • Evaluate, along with the other independent directors, the Chief Executive Officer's
13 performance and meet with the Chief Executive Officer to discuss the Board's
14 evaluation.
- 15 • Recommend to the Nominating and Corporate Governance Committee members for
16 various Board Committees, as well as selection of the Committee Chairpersons.

17 **c. Director Independence**

18 At least a majority of the members of the Board shall be "independent directors," as defined
19 below. To be deemed "independent" in any calendar year, a director, and the directors immediate
20 family members, would have to satisfy the following qualifications:

- 21 i. Has not been employed as an elected officer of the Company or its
22 subsidiaries or affiliates within the last three (3) calendar years.
- 23 ii. Has not received, during the current calendar year or any of the three
24 immediately preceding calendar years, remuneration, directly or indirectly, other than *de minimus*
25 remuneration (i.e., not to exceed \$100,000 per year), as a result of service as, or compensation paid
26 to an entity affiliated with the director that serves as (i) an advisor, consultant, or legal counsel to the

1 Company or to a member of the Company's senior management; or (ii) a significant customer or
2 supplier (as defined by the NASDAQ rules) of the Company.

3 iii. Has no personal services contract(s) with the Company or any member
4 of the Company's senior management.

5 iv. Is not an executive officer of a public company at which an executive
6 officer of the Company serves as a director.

7 v. Is not a full-time employee or director of a non-profit entity that
8 receives significant (i.e., not to exceed \$100,000 per year) contributions from the Company.

9 vi. Is not a member of the immediate family of any person described in
10 subsections (i)-(iv) above.

11 vii. Has not had any of the relationships described in subsections (a)-(f)
12 above with any affiliate of the Company.

13 If the Company is out of compliance with the independence requirements set forth herein, the
14 Company will return to compliance within 30 days.

15 **d. Director Perquisites**

16 Aside from meeting-related expenses such as airfare, hotel accommodations and modest
17 travel/accident insurance, non-employee directors will receive no other perquisites. Health, life, and
18 other forms of insurance, financial planning, automobile allowances, and other similar perquisites
19 will not be provided as benefits to directors.

20 **e. Shareholder Meetings**

21 i. Absent extraordinary circumstances, each member of the Board shall
22 be required to attend each annual shareholder meeting in person.

23 ii. All qualified shareholder proposals shall be evaluated by the
24 Company's General Counsel and a Committee of at least two independent directors, as defined
25 herein, chaired by an independent Chairman. Such Committee will determine, in consultation with
26 the Company's General Counsel and with the assistance of outside advisors, if necessary, whether

1 the shareholder proposal complies with the applicable substantive and procedural requirements of
 2 the federal securities rules, and if so, will make a recommendation to the Board for or against such
 3 shareholder proposal including the reasons for such recommendation. The Committee will
 4 determine whether to publish this recommendation in the applicable proxy statement. Also, the
 5 Committee will determine, in consultation with the Company's General Counsel and with the
 6 assistance of outside advisors, if necessary, whether to submit a no-action request to the Securities
 7 And Exchange Commission.

8 **3. Compensation Practices**

9 a. At least once every two (2) years the Compensation Committee shall select
 10 and retain an independent consultant to compare the Company's executive compensation policies,
 11 practices, and procedures relative to other public companies and prepare and submit to the
 12 Compensation Committee a report.

13 b. The Company shall adopt a policy that if the Company restates its reported
 14 financial results to correct a material accounting error on an interim or annual financial statement
 15 included in a report on Form 10-Q or 10-K due to material noncompliance with a financial reporting
 16 requirement under the federal securities laws, the Board of Directors shall review any performance-
 17 based bonuses paid to the Chief Executive Officer, Chief Accounting Officer, and General Counsel
 18 as a result of the restated results during the 12-month period preceding the filing of the restatement
 19 and, to the extent practicable and in the best interests of shareholders, shall seek to recover or cancel
 20 the appropriate excess portion, if any, of such awards that were based on financial results that were
 21 revised in the restatement. Following such review, if the Board of Directors decides not to recover
 22 or cancel any portion of the awards at issue, that decision shall be disclosed in the Company's next
 23 annual proxy statement.

24 **C. Procedure For Implementing The Settlement**

25 1. Promptly after execution of this Stipulation, Federal Lead Plaintiff shall submit the
 26 Stipulation and its exhibits to the Court and shall apply for an order substantially in the form of

Exhibit A hereto, requesting the preliminary approval of the Settlement set forth in the Stipulation (the "Preliminary Approval Order"), and approval for the publication of the Notice of Settlement substantially in the form of Exhibit A-1 hereto, which shall include the general terms of the Settlement set forth in the Stipulation, including the general terms of the fees and expenses to be paid to Plaintiffs' Counsel and the date of the Settlement Hearing (as defined below). Within ten (10) days of the issuance of the Preliminary Approval Order, F5 shall cause the Stipulation to be filed with the Securities And Exchange Commission, shall publish the Notice of Settlement for one day in *Investor's Business Daily*, and shall post the Notice of Settlement on F5's website. All costs in providing notice will be paid by F5.

2. The Federal Plaintiffs and Federal Lead Counsel will request that after the Notice of Settlement is given as set forth above, the Court hold a hearing (the "Settlement Hearing") and approve the settlement of the Federal Action as set forth herein, including payment of Plaintiffs' Counsel's attorneys' fees and expenses in the amount negotiated by Federal Lead Counsel and F5, with the assistance of a mediator, the Hon. Layn Phillips (Ret.), following negotiation of the Corporate Governance Reforms, and enter the Judgment.

3. Within five (5) business days after the issuance of an order by the Court finally approving the Settlement, the Settling Parties and their counsel shall jointly apply to the State Court for orders dismissing with prejudice the State Action, and shall use their reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper and appropriate to secure dismissal with prejudice of the State Action. Without limiting the generality of the foregoing provision, Federal Lead Counsel will have lead and primary responsibility for preparing, filing, and pursuing any and all motions or other pleadings necessary to secure dismissal with prejudice of the State Action.

D. Releases

1. Upon the Effective Date (as defined in § IV(A)(5)) F5, Plaintiffs (acting on their own behalf and derivatively on behalf of F5), and each of F5's shareholders (solely in their capacity as F5

1 shareholders) shall be deemed to have, and by operation of the Judgment shall have, fully, finally,
 2 and forever released, relinquished and discharged the Released Claims against the Released Persons
 3 and any and all claims (including Unknown Claims) arising out of, relating to, or in connection with
 4 the defense, settlement or resolution of the Actions against the Released Persons, provided that
 5 nothing herein shall in any way impair or restrict the rights of any Settling Party to enforce the terms
 6 of the Stipulation or Judgment.

7 2. Upon the Effective Date (as defined in § IV(A)(5)), F5, Plaintiffs (acting on their own
 8 behalf and, derivatively on behalf of F5), and each of F5's shareholders (solely in their capacity as
 9 F5 shareholders) will be forever barred and enjoined from commencing, instituting or prosecuting
 10 any of the Released Claims or any action or other proceeding against any of the Released Persons
 11 based on the Released Claims or any action or proceeding, arising out of, related to, or in connection
 12 with the Settlement or resolution of the Actions, provided, that nothing herein shall in any way
 13 impair or restrict the rights of any Settling Party to enforce the terms of the Stipulation or Judgment.

14 3. Except as set forth in § IV(D)(4) below, upon the Effective Date (as defined in
 15 § IV(A)(5)), each of the Released Persons shall be deemed to have, and by operation of the
 16 Judgment shall have, fully, finally, and forever released, relinquished and discharged each and all of
 17 the Plaintiffs, Plaintiffs' Counsel, F5, and all of the F5 shareholders (solely in their capacity as F5
 18 shareholders) from all claims (including Unknown Claims), arising out of, relating to, or in
 19 connection with the institution, prosecution, assertion, settlement or resolution of the Actions or the
 20 Released Claims. Nothing herein shall in any way impair or restrict the rights of any Settling Party
 21 to enforce the terms of the Stipulation or Judgment.

22 4. Nothing in this Stipulation constitutes or reflects a waiver or release of any rights or
 23 claims of Defendants against their insurers, or their insurers' subsidiaries, predecessors, successors,
 24 assigns, affiliates, or representatives. Nothing in this Stipulation constitutes or reflects a waiver or
 25 release of any rights or claims of the Individual Defendants relating in any way to indemnification,
 26

1 advancement, or any undertakings by an indemnified party to repay amounts advanced or paid by
2 way of indemnification or otherwise.

3 **E. Plaintiffs' Counsel's Attorneys' Fees and Expenses**

4 After negotiating the Corporate Governance Reforms, Federal Lead Counsel, with the
5 assistance of the Honorable Layn Phillips, U.S. District Court Judge (Ret.), negotiated the attorneys'
6 fees and expenses that the Company would pay to Plaintiffs' Counsel in the Actions. The Company
7 has agreed to pay \$5,000,000 to Plaintiffs' Counsel in the Actions for their fees and expenses,
8 subject to Court approval ("Fee Award"). Within ten (10) business days of issuance of an order by
9 the Court finally approving the Settlement, the Company shall make the Fee Award payment into a
10 mutually agreeable escrow account, with F5 and Federal Lead Counsel as signatories to the account
11 (the "Fee Account"). Within ten (10) business days of the Effective Date, the parties to the Fee
12 Account will take all necessary steps to release the Fee Award payment, plus any accrued interest, to
13 Federal Lead Counsel as receiving agent for all Plaintiffs' Counsel. Federal Lead Counsel shall then
14 be responsible for the allocation of such fees and expenses to Plaintiffs' Counsel, based upon each
15 counsel's contribution to the initiation, prosecution and/or resolution of the Actions.

16 **F. Conditions of Settlement, Effect of Disapproval, Cancellation or Termination**

17 1. The Effective Date is conditioned on the occurrence of all of the following events,
18 and is the first date by which all of the following events and conditions have been met and have
19 occurred:

- 20 a. Approval of the Settlement, including the Corporate Governance Measures
21 and Fee Award by the F5 Board of Directors;
- 22 b. Entry by the Court of the Judgment and an order approving the Settlement;
- 23 c. Dismissal with prejudice of the State Action, without an additional award of
24 fees or costs to any of Plaintiffs' Counsel (other than the Fee Award), which dismissal has become
25 Final;
- 26 d. Payment by the Company of the Fee Award; and

1 e. the Judgment has become Final.

2 2. If any of the conditions specified in § IV(F)(1) are not met, then the Stipulation and
3 the Settlement shall be canceled and terminated subject to § IV(F)(3), unless Federal Lead Counsel
4 and counsel for F5 mutually agree in writing to proceed with the Stipulation and the Settlement.

5 3. If for any reason the Effective Date of the Stipulation does not occur, within ten (10)
6 business days of the event causing the Effective Date not to occur, the parties to the Fee Account
7 will take all necessary steps to release the Fee Award payment, plus any accrued interest, to F5 on its
8 own behalf and on behalf of its insurer. If the Effective Date occurs but the Stipulation is in any
9 way canceled or terminated, or if any orders or judgments specified in §§ IV(F)(1)(b) and (c) are
10 successfully attacked collaterally, then the Fee Award payments to Plaintiffs' Counsel, and any and
11 all interest accrued thereon since payment, shall be returned to F5 or its insurer, in accordance and in
12 proportion as instructed by F5, within ten (10) business days of said event. The return obligation set
13 forth in this § IV(F)(3) is the joint and several obligation of all those Plaintiffs' Counsel who have
14 received a payment in the Actions. Each such Plaintiffs' Counsel's law firm, as a condition of
15 receiving such payment, agrees that the law firm and its partners and/or shareholders are subject to
16 the continuing jurisdiction of the Court and the State Court for the purposes of enforcing this
17 § IV(F)(3).

18 **G. Miscellaneous Provisions**

19 1. The Settling Parties (a) acknowledge that it is their intent to consummate this
20 Stipulation and the Settlement; and (b) agree to cooperate to the extent reasonably necessary to
21 effectuate and implement all terms and conditions of the Stipulation and the Settlement, and to
22 exercise their best efforts to accomplish the foregoing terms and conditions of the Stipulation and
23 the Settlement.

24 2. Pending the Effective Date of this Stipulation or the termination of the Stipulation
25 according to its terms, Plaintiffs are barred and enjoined from commencing, prosecuting, instigating,
26

1 or in any way participating in the commencement or prosecution of any action asserting any
2 Released Claims against any Released Person.

3 3. The Settling Parties intend this Settlement to be a final and complete resolution of all
4 disputes between Plaintiffs and the Defendants with respect to the Actions. The Settlement
5 compromises claims that are contested and shall not be deemed an admission by any Settling Party
6 as to the merits of any claim, allegation or defense. While Defendants deny that the claims advanced
7 in the Actions are meritorious, these Defendants agree that, in any statement made to any media
8 representative (whether or not for attribution), they will not assert that the Actions were not filed in
9 good faith and in accordance with the applicable rules, including, without limitation, Federal Rule of
10 Civil Procedure 11 and all other similar laws or rules. The Settling Parties further agree that the
11 claims are being settled voluntarily after consultation with competent legal counsel. The Settling
12 Parties will jointly request that the Judgment contain a finding that during the course of the litigation,
13 the parties and their respective counsel at all times complied with the requirements of Federal Rule
14 of Civil Procedure 11 and all other similar laws or rules.

15 4. Neither the Stipulation (including any exhibits attached hereto) nor the Settlement,
16 nor any act performed or document executed pursuant to or in furtherance of the Stipulation or the
17 Settlement: (a) is or may be deemed to be, or may be offered, attempted to be offered, or used in any
18 way by the Settling Parties as a presumption, a concession or an admission of, or evidence of, any
19 fault, wrongdoing or liability of the Settling Parties or of the validity of any Released Claims; or (b)
20 is intended by the Settling Parties to be offered or received as evidence or used by any other person
21 in any other actions or proceedings, whether civil, criminal or administrative. The Released Persons
22 may file the Stipulation and/or the Judgment in any action that may be brought against them in order
23 to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, full faith
24 and credit, release, standing, good faith settlement, judgment bar or reduction or any other theory of
25 claim preclusion or issue preclusion or similar defense or counterclaim, and any of the Settling
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1 Parties may file the Stipulation and documents executed pursuant and in furtherance thereto in any
2 action to enforce the Settlement.

3 5. The exhibits to this Stipulation are material and integral parts hereof and are fully
4 incorporated herein by this reference.

5 6. The Stipulation may be amended or modified only by a written instrument signed by
6 or on behalf of all Settling Parties or their respective successors-in-interest.

7 7. This Stipulation and the exhibits attached hereto constitute the entire agreement
8 among the Settling Parties and no representations, warranties or inducements have been made to any
9 Settling Party concerning the Stipulation or any of its exhibits other than the representations,
10 warranties and covenants contained and memorialized in such documents. Except as otherwise
11 provided herein, each Settling Party shall bear its own costs.

12 8. Federal Lead Counsel are expressly authorized by the Federal Plaintiffs to take all
13 appropriate action required or permitted to be taken pursuant to the Stipulation to effectuate its terms
14 and also are expressly authorized by the Federal Plaintiffs to enter into any modifications or
15 amendments to the Stipulation which they deem appropriate on behalf of the Federal Plaintiffs.

16 9. Each counsel or other Person executing the Stipulation or the exhibits attached hereto
17 on behalf of any Settling Party hereby warrants that such Person has the full authority to do so.

18 10. The Stipulation may be executed in one or more counterparts. A faxed or
19 electronically scanned (in .pdf format) signature shall be deemed an original signature for the
20 purposes of this Stipulation. All executed counterparts and each of them shall be deemed to be one
21 and the same instrument. A complete set of counterparts, either originally executed or copies
22 thereof, shall be filed with the Court and, thereafter, with the State Court.

23 11. The Stipulation and the Settlement shall be binding upon, and inure to the benefit of,
24 the successors and assigns of the Settling Parties and the Released Persons.

570430_1 STIPULATION OF SETTLEMENT

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1 12. The Court shall retain jurisdiction with respect to implementation and enforcement of
2 the terms of the Stipulation and the Settlement, and the Settling Parties submit to the jurisdiction of
3 the Court for purposes of implementing and enforcing the Stipulation and the Settlement.

4 13. This Stipulation and the exhibits attached hereto shall be considered to have been
5 negotiated, executed and delivered, and to be wholly performed, in the state of Washington, and the
6 rights and obligations of the parties to the Stipulation shall be construed and enforced in accordance
7 with, and governed by, the internal, substantive laws of the state of Washington without giving effect
8 to that state's choice of law principles.

9 14. The Parties hereby represent and warrant that they have not assigned any rights,
10 claims or causes of action that were asserted or could have been asserted in connection with, under
11 or arising out of the Released Claims.

12 15. All agreements made and orders entered during the course of the Actions relating to
13 the confidentiality of information shall survive this Stipulation.

14 16. Without further order of the Court, the Settling Parties may agree to reasonable
15 extensions of time to carry out any of the provisions of this Stipulation.

16
17 IN WITNESS WHEREOF, the Settling Parties have caused the Stipulation to be executed by
18 their duly authorized attorneys and dated September 24, 2010.

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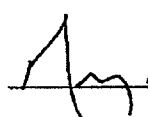
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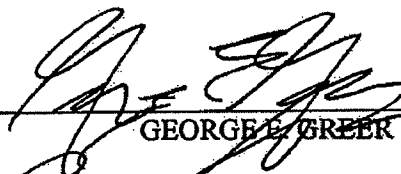
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CERTIFICATE OF SERVICE

I hereby certify that on October 7, 2010, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses denoted on the attached Electronic Mail Notice List, and I hereby certify that I caused to be mailed the foregoing document or paper via the United States Postal Service to the non-CM/ECF participants indicated on the attached Manual Notice List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on October 7, 2010.

s/ Benny C. Goodman III

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Manual Notice List

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- (No manual recipients)